

Governor Northam's Proposed 2022-2024 Budget

Economic Outlook and Revenue Forecast

*A Briefing for the House Appropriations, House Finance, and
Senate Finance & Appropriations Committees*

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Outline

- Fiscal Year 2021 Year-in-Review
- U.S. and Virginia Economic Outlook
- December Revenue Forecast
- November Revenue Collections
- Next Steps

Including Transfers, FY 2021 General Fund Resources Grew 14.2 Percent and Finished \$2.6 Billion Above Forecast

Summary of Fiscal Year 2021 Revenue Collections (millions of dollars)

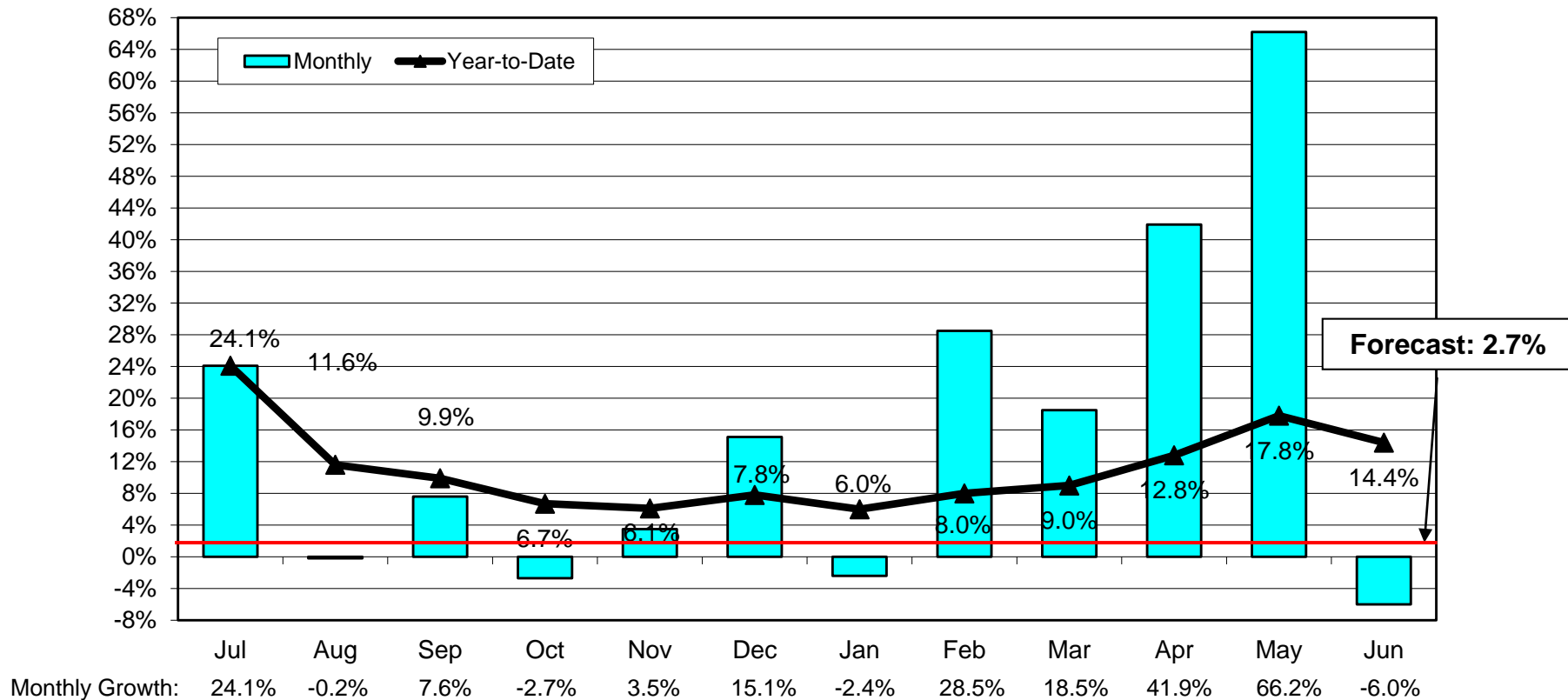
	As a % of Total General Fund	Fiscal Year 2021			% Growth Over FY20	
		Official	Actual	Change	Official	Actual
Withholding	54.7%	\$13,739.6	\$14,012.9	\$273.3	2.7 %	4.7 %
Nonwithholding	20.3%	3,972.0	5,217.0	1,245.0	4.4	37.1
Refunds	-7.5%	(2,265.6)	(1,926.2)	339.4	23.7	5.2
Net Individual	67.5%	\$15,446.0	\$17,303.7	\$1,857.7	0.6	12.7
Sales	16.3%	\$3,879.3	\$4,166.2	\$286.9	4.7	12.4
Corporate	5.9%	1,288.7	1,515.7	227.0	27.4	49.8
Wills (Recordation)	2.7%	601.3	679.7	78.4	24.4	40.6
Insurance	1.4%	314.9	363.1	48.2	(12.7)	0.7
All Other Revenue	3.3%	790.6	850.1	59.5	(4.0)	3.2
Total Revenue	97.0%	\$22,320.8	\$24,878.5	\$2,557.7	2.7 %	14.4 %
A.B.C. Profits	0.7%	\$159.5	\$177.9	\$18.4	16.0 %	29.4 %
Sales Tax (0.375%)	1.8%	421.6	458.4	36.8	3.8	12.9
Transfers Per Act	0.5%	114.4	122.3	7.9	(23.8)	(23.8)
Total Transfers	3.0%	\$695.5	\$758.6	\$63.1	(1.2) %	7.8 %
TOTAL GENERAL FUND	100.0%	\$ <u>\$23,016.3</u>	\$ <u>\$25,637.1</u>	\$ <u>2,620.8</u>	<u>2.6 %</u>	<u>14.2 %</u>

- Payroll withholding and sales tax collections grew 6.4 percent in fiscal year 2021.

FY 2021 General Fund Revenue Grew 14.4 Percent

Growth in Total General Fund Revenue Collections

FY21 Monthly and Year-to-Date



- Fiscal year total general fund revenues increased 14.4 percent, well ahead of the annual forecast of a 2.7 percent increase.

Recent National and State Economic Indicators Suggest Continued Expansion

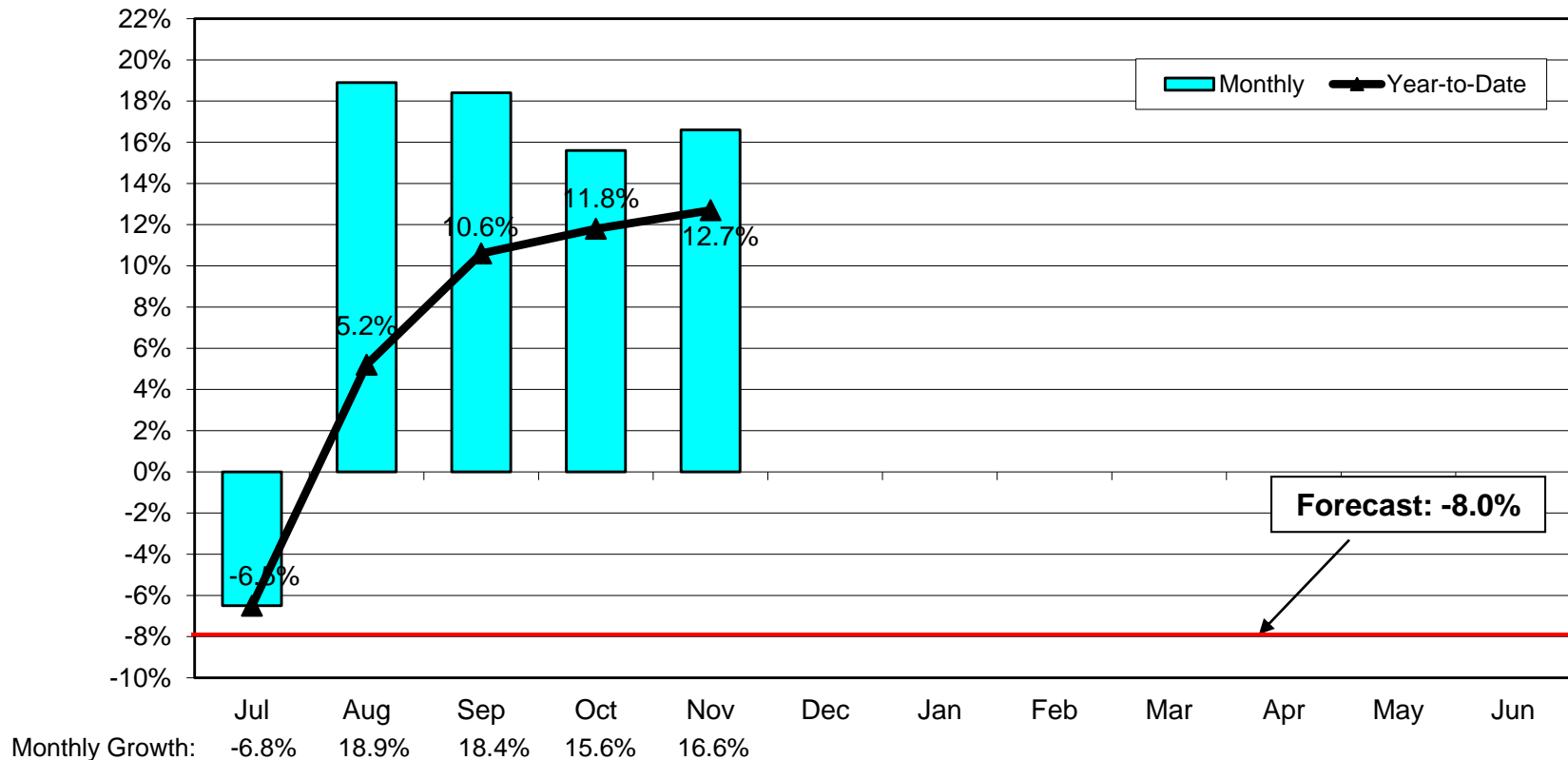
- According to the second estimate, real GDP grew at an annualized rate of 2.1 percent in the third quarter of 2021, down from 6.7 percent in the second quarter.
- Payroll employment increased by 210,000 jobs in November and gains for September and October were revised higher by a combined 82,000.
- The national unemployment rate fell from 4.6 to 4.2 percent in November.
- Initial claims for unemployment rose by 28,000 to 222,000 during the week ending November 27.
 - The four-week moving average dropped by 12,250 to 238,750. Claims are volatile this time of year and the reporting period included the Thanksgiving holiday.
- The Conference Board's index of consumer confidence fell from 111.6 to 109.5 in November. Both the expectations and current conditions components fell.
- The Conference Board's index of leading indicators rose 0.9 percent in October following a 0.1 percent increase in September.
- Conditions in the manufacturing sector improved slightly in November. The Institute of Supply Management index rose from 60.8 to 61.1.

Recent National and State Economic Indicators

Suggest Continued Expansion (*continued*)

- The CPI rose 0.9 percent in October and stands 6.2 percent above October 2020.
 - Core inflation (excluding food and energy prices) rose 0.6 percent, and has increased 4.6 percent from last year.
- At its November meeting, the Federal Reserve left the federal funds target unchanged in the 0.0 to 0.25 percent range.
- In Virginia, payroll employment rose 2.0 percent in October compared with last year. Northern Virginia posted growth of 3.4 percent; Hampton Roads employment grew 0.1 percent, and Richmond-Petersburg rose 0.1 percent.
- The seasonally adjusted unemployment rate fell 0.2 percentage point to 3.6 percent in October and was 2.5 percentage points below last year.
- The Virginia Leading Index dropped 0.8% in October after falling 0.9% in September.
 - The U.S. Leading Index increased in October while auto registrations and future employment declined and initial claims jumped.
 - The index for Blacksburg inched forward in October while the indexes for the remaining ten metro areas decreased in October.

Fiscal Year 2022 Year-to-Date Revenue Collections Through November



- Total general fund revenues increased 16.6 percent in November.
 - Broad-based growth in payroll withholding, sales, and corporate tax collections.
- On a year-to-date basis, total revenues increased 12.7 percent, ahead of the annual forecast of an 8.0 percent decline.

Fall 2021 Consensus Forecasting Process

- **Joint Advisory Board of Economists (JABE)** met October 13.
- The JABE members thought the US Standard forecast was fairly reasonable and supported the standard outlook for Virginia.
- Almost all members recommended that FY22 and FY23-24 forecasts should continue to be conservative.
 - The key assumption that Virginia would have slower income and job growth than the nation was the clear thinking of the majority.
 - Nine of the twelve members supported the September standard outlook.
 - Three members believed the Virginia economy would be a little more pessimistic or optimistic in the short-term.
- **Governor's Advisory Council on Revenue Estimates (GACRE)** met November 22.
 - Members evaluated the new JABE recommended forecast – now the standard outlook, revenue collections through October, and the associated revenue forecasts for the FY22-24 biennium.
 - At the GACRE meeting, nine of the twelve business members voted for the standard. Three members voted for a standard plus forecast for the FY22-24 biennium.

GACRE Members Concurred with the JABE Recommended Forecast

Key Virginia Economic Indicators

Official and October Standard Forecasts
Annual Percent Change

	Fiscal Year					
	19	20	21	22	23	24
Employment						
Official (Oct '20)	1.3	(1.4)	(0.3)	1.0	1.4	0.9
Oct Standard			(2.5)	2.8	1.1	0.8
Personal Income						
Official (Oct '20)	4.1	4.3	3.7	3.4	3.8	3.5
Oct Standard			6.2	4.6	3.9	4.3
Wages & Salaries						
Official (Oct '20)	4.6	2.5	3.3	3.9	4.8	3.9
Oct Standard			4.6	6.4	5.3	4.6

- With the advice of JABE and GACRE, the October 2021 Virginia Economic Outlook for FY22-24 depicts a growing economy.

Virginia's Economy Is Expected To Continue To Have Slightly Softer Growth Than the Nation

Key U.S. and Virginia Economic Indicators

U.S. October 2021 Standard and Virginia Standard Forecast
(annual percent change)

	Fiscal Year					
	19	20	21	22	23	24
Real GDP	2.4	(0.9)	1.6	4.5	3.7	2.6
Consumer Spending	2.5	(1.4)	2.9	5.3	2.7	2.6
CPI	2.1	1.6	2.3	4.6	2.0	2.1
3-Month T-bill	2.3	1.2	0.1	0.1	0.1	0.6
Employment						
U.S.	1.5	(1.9)	(2.8)	4.2	2.7	1.3
Virginia	1.2	(1.6)	(2.5)	2.8	1.1	0.8
Personal Income						
U.S.	4.8	5.4	7.2	1.0	4.4	5.1
Virginia	4.1	4.5	6.2	4.6	3.9	4.3
Wages & Salaries						
U.S.	4.9	2.4	4.8	8.3	6.3	5.3
Virginia	4.6	2.6	4.6	6.4	5.3	4.6

- After two years of performing better or close to the U.S., the consensus outlook for Virginia would be to returning to slightly underperforming the nation.

December General Fund Revenue Forecast

Composition of the December Revenue Forecast

Fiscal Year 2022
(millions of dollars)

	FY22
<u>GACRE Revenue Forecast</u>	\$26,090.3
Total Revenue Growth: GACRE	4.9%
<u>Revenue Policy Adjustments</u>	
Tax Conformity	(158.6)
Total General Fund Revenues	\$ 25,931.7
Total Revenue Growth: December	4.2%

Note: numbers may not add due to rounding.

December General Fund Revenue Forecast

Composition of the December Revenue Forecast

Fiscal Years 2023 and 2024

(millions of dollars)

	FY23	FY24	2023-24 Biennium
<u>GACRE Revenue Forecast</u>	\$27,339.6	\$28,496.7	\$55,836.3
Total Revenue Growth: GACRE	4.8%	4.2%	
<u>Revenue Policy Adjustments</u>			
Worker Misclassification Program	0.2	0.5	0.7
Menstrual Products Tax Elimination	(0.9)	(0.9)	(1.7)
Eliminate Accelerated Sales Tax	(202.8)	0.0	(202.8)
Refundable Earned Income Tax Credit	(159.0)	(156.0)	(315.0)
Tax Rebate (\$250/\$500)	(1,048.6)	0.0	(1,048.6)
Eliminate State Share of Grocery Tax	(106.2)	(262.3)	(368.5)
Tax Conformity	<u>(35.6)</u>	<u>(0.6)</u>	<u>(36.2)</u>
Total	(1,552.9)	(419.3)	(1,972.1)
Total General Fund Revenues	\$ 25,786.7	\$ 28,077.4	\$ 53,864.2
Total Revenue Growth	-0.6%	8.9%	

Note: numbers may not add due to rounding.

The Official and December Standard General Fund Forecasts

(Dollars in Millions)

December 16, 2021

	Fiscal Year 2022						2020-2022 Biennium		
	Official	December	Change	% Growth Over FY21			Official	December	Change
				Official	December				
Withholding	\$14,245.9	\$14,838.7	\$592.8	3.7 %	5.9 %		\$27,985.5	\$28,851.6	\$866.1
Nonwithholding	3,890.5	5,206.2	1,315.7	(2.1)	(0.2)		7,862.5	10,423.2	2,560.7
Refunds	(2,145.0)	(2,125.2)	19.8	(5.3)	10.3		(4,410.6)	(4,051.4)	359.2
Net Individual	\$15,991.4	\$17,919.7	\$1,928.3	3.5	3.6		\$31,437.4	\$35,223.4	\$3,786.0
Sales	\$3,992.2	\$4,427.8	\$435.6	2.9	6.3		\$7,871.5	\$8,594.0	\$722.5
Corporate	1,271.6	1,721.5	449.9	(1.3)	13.6		2,560.3	3,237.2	676.9
Wills (Recordation)	467.0	593.7	126.7	(22.3)	(12.6)		1,068.3	1,273.4	205.1
Insurance	360.9	394.3	33.4	14.6	8.6		675.8	757.4	81.6
All Other Revenue	816.0	874.7	58.7	3.2	2.9		1,606.6	1,724.8	118.2
Total Revenue	\$22,899.1	\$25,931.7	\$3,032.6	2.6 %	4.2 %		\$45,219.9	\$50,810.2	\$5,590.3
A.B.C. Profits	\$130.2	\$161.4	\$31.2	(18.4) %	(9.3) %		\$289.7	\$339.3	\$49.6
Sales Tax (0.375%)	433.8	487.3	53.5	2.9	6.3		855.4	945.7	90.3
Transfers Per Act	118.4	99.9	(18.5)	3.5	(18.3)		232.8	222.2	(10.6)
Total Transfers	\$682.4	\$748.6	\$66.2	(1.9) %	(1.3) %		\$1,377.9	\$1,507.2	\$129.3
TOTAL GENERAL FUND	\$23,581.5	\$26,680.3	\$3,098.8	2.5 %	4.1 %		\$46,597.8	\$52,317.4	\$5,719.6

December Standard General Fund Forecast

(Dollars in Millions)

December 16, 2021

	Fiscal Year 2023		Fiscal Year 2024		2022-2024 Biennium	
	December Forecast	% Growth Over FY 22	December Forecast	% Growth Over FY 23	December Forecast	% Growth Over 20-22
Withholding	\$ 15,598.2	5.1 %	\$ 16,315.2	4.6 %	\$ 31,913.4	10.6 %
Nonwithholding	5,529.7	6.2	5,864.2	6.0	11,393.9	9.3
Refunds	<u>(3,265.5)</u>	<u>53.7</u>	<u>(2,292.6)</u>	<u>(29.8)</u>	<u>(5,558.1)</u>	<u>37.2</u>
Net Individual	\$ 17,862.4	(0.3)	\$ 19,886.8	11.3	\$ 37,749.2	7.2
State Sales & Use Tax	\$ 4,299.0	(2.9)	\$ 4,478.7	4.2	\$ 8,777.7	2.1
Corporate Income	1,737.0	0.9	1,784.9	2.8	3,521.9	8.8
Wills (Recordation)	593.7	0.0	593.7	0.0	1,187.4	(6.8)
Insurance	406.1	3.0	425.3	4.7	831.5	9.8
All Other Revenue	<u>888.5</u>	<u>1.6</u>	<u>908.0</u>	<u>2.2</u>	<u>1,796.5</u>	<u>4.2</u>
Total Revenue	\$25,786.7	(0.6) %	\$28,077.4	8.9 %	53,864.2	6.0 %
A.B.C. Profits	\$ 120.9	(25.1) %	\$ 123.8	2.4 %	\$ 244.7	(27.9) %
Sales Tax (0.375%)	507.3	4.1	522.0	2.9	1,029.3	8.8
Transfers Per Act	<u>98.2</u>	<u>(1.7)</u>	<u>98.2</u>	<u>0.0</u>	<u>196.4</u>	<u>(11.6)</u>
Total Transfers	\$ 726.4	(3.0) %	\$ 744.0	2.4 %	\$ 1,470.4	(2.4) %
TOTAL GENERAL FUND	\$ <u>26,513.1</u>	<u>(0.6) %</u>	\$ <u>28,821.4</u>	<u>8.7 %</u>	\$ <u>55,334.6</u>	<u>5.8 %</u>

Fiscal Year 2022 Year-to-Date Revenue Collections

November Year-to-Date Collections and FY22 December Forecast

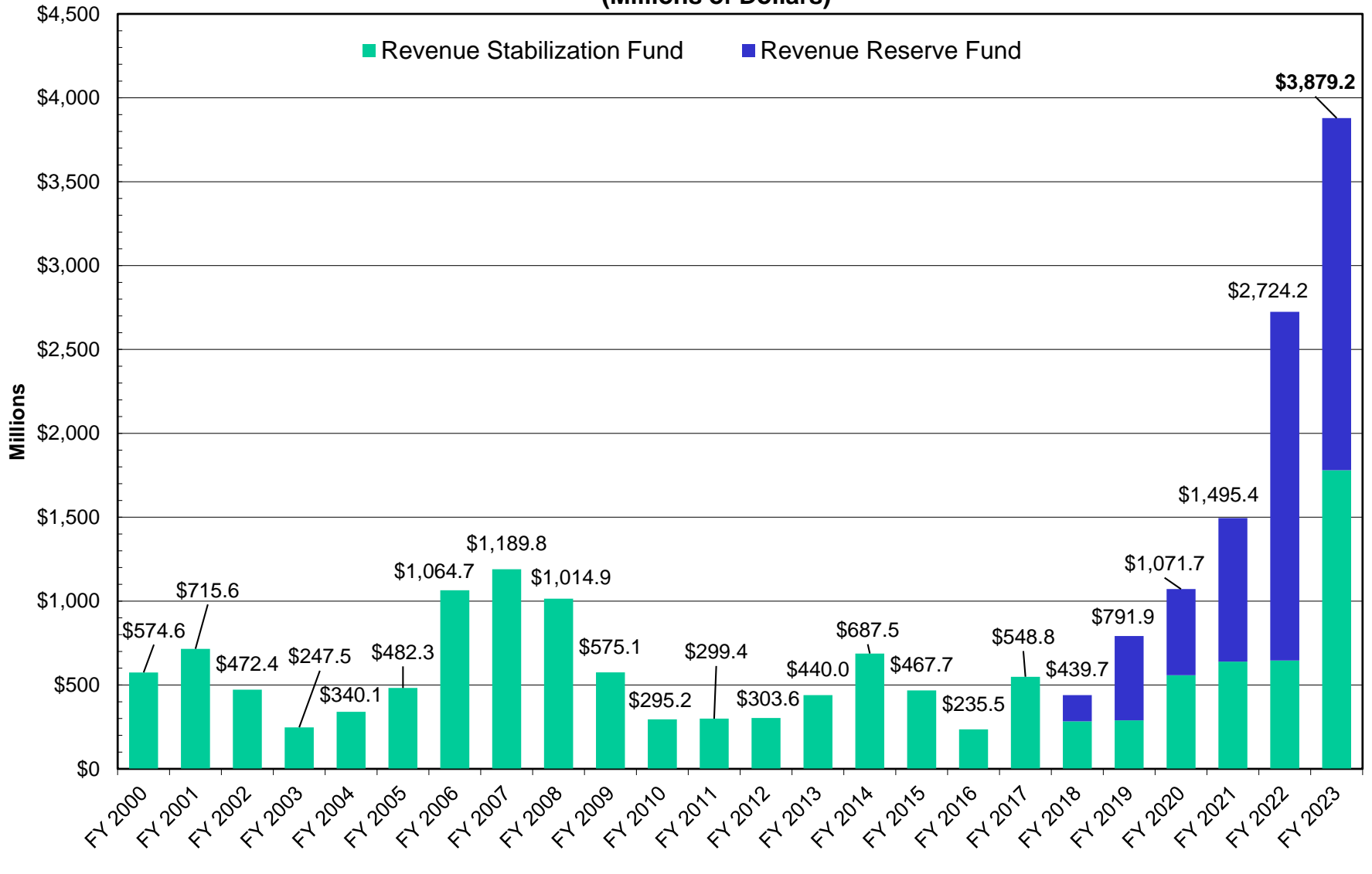
Percent Growth over Prior Year

Major Source	As a % of Total Revenues	YTD Actual	Annual Estimate	Variance	Dec - Jun Req'd to Meet Est.	Prior Year Dec - Jun
Withholding	57.2 %	10.0 %	5.9 %	4.1 %	3.4 %	7.1 %
Nonwithholding	20.1	(3.3)	(0.2)	(3.1)	0.7	36.7
Refunds	(8.2)	(29.2)	10.3	(39.5)	21.7	(2.5)
Net Individual	69.1	10.1	3.6	6.5	0.0	17.9
Sales	17.1	14.4	6.3	8.1	1.7	15.7
Corporate	6.6	55.1	13.6	41.5	(0.7)	58.3
Wills (Recordation)	2.3	3.3	(12.6)	15.9	(23.8)	44.5
Insurance	1.5	n/a	8.6	n/a	8.6	0.7
All Other Revenue	3.4	10.9	2.9	8.0	(1.0)	10.6
Total	100.0 %	12.7 %	4.2 %	8.5 %	(0.2) %	19.4 %
Total less Nonwithholding	79.9 %	15.3 %	5.4 %	9.9 %	(0.5) %	14.7 %

- In November, total revenues grew by 16.6 percent
 - Payroll withholding grew by 10.9 percent
 - Sales tax increased by 10.9 percent
 - Corporate extension payments were \$93.2 million as compared to last year's \$17.1 million.
- Total revenues grew 12.7 percent through November, ahead of the December estimate of 4.2 percent growth.

Total of All Reserves Actual and Projected

(Millions of Dollars)



Next Steps in the Revenue Forecasting Process

- The mid-session review will incorporate the latest economic and revenue data.
 - IHS Markit January U.S. economic outlook:
 - Impact of any federal budget agreements and debt ceiling
 - Holiday retail sales
 - Key additional revenue data will be available:
 - **December 15** – due date for the fourth quarter corporate estimated income tax payment
 - **January 17** – due date for the fourth quarter individual estimated income tax payment
 - **January 20** – due date for retail sales tax collections, reflecting the main holiday shopping season

APPENDIX

This presentation and the appendix data listed below are available at the Secretary of Finance website: www.finance.virginia.gov

- U.S. Economic Indicators
- Virginia Economic Indicators
- General Fund Forecast, FY 2022-2028
- Commonwealth Transportation Fund Forecast, FY 2022-2028
- Virginia Health Care Fund Forecast, FY 2022-2028
- GACRE November Standard Revenue Forecast
- GACRE November Pessimistic Revenue Forecast
- Growth in General Fund Revenues, FY 1961-2024
- Nongeneral Fund Forecast, FY 2022-2028
- November FY 2022 Revenue Report
- An Overview of Individual Nonwithholding Income Tax Collections